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Terry Gou, Hon Hai's inimitable, imperious chief

DEBBY WU, Nikkei staff writer

TAIPEI Terry Gou's long and occasionally fraught pursuit of Japanese electronics conglomerate Sharp reveals much about the strengths and weaknesses of the 65-year-old founder of [Hon Hai Precision Industry](#), the world's largest contract electronics manufacturer.

Gou's tenacity has brought opportunities and high growth to his company, which is also known as Foxconn Technology Group, and its shareholders. Yet his domineering, sometimes willful approach can alienate those he might need as allies.

Hon Hai wants Sharp, a hemorrhaging household name around the world, for its advanced display technology. The Taiwanese company is prepared to pay 700 billion yen (\$5.98 billion), compared to the 300 billion yen that has been offered by the state-backed Innovation Network Corp. of Japan. Hon Hai has sweetened its offer by promising not to fire Sharp's management or demand that existing lenders waive debts, as INCJ has been proposing.

Proposals from Hon Hai, INCJ for rebuilding Sharp

HON HAI		INNOVATION NETWORK CORP. OF JAPAN
Totals 700 billion yen, including investment in Sharp, purchase of additional stake in LCD production unit	Financial support	Invests 300 billion yen in Sharp, offers credit line of 200 billion yen
Maintains current workforce but may get rid of solar business	Restructuring	Sells assets, businesses with little growth potential
Maintains current management	Management	Calls for president, two other top executives to step down
Buys at book value 200 billion yen of preferred shares held by two banks; seeks no major financial aid from either	Negotiations with Sharp's two main lenders	Turns debt of up to 150 billion yen into shares, retires up to 200 billion yen of preferred shares

Gou even tempered his normally imperious manner to make a gentle appeal: "We don't want to destroy this company," he said. "We want to keep this company [for] another hundred years. Working with us is the right decision."

The softer approach seemed to be working. Kozo Takahashi, Sharp's president, revealed in early February that his company is devoting more

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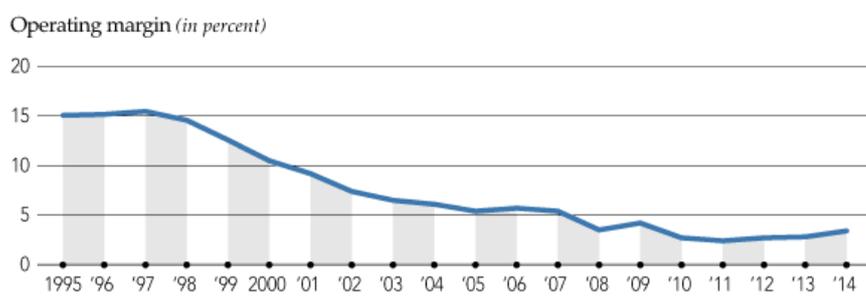
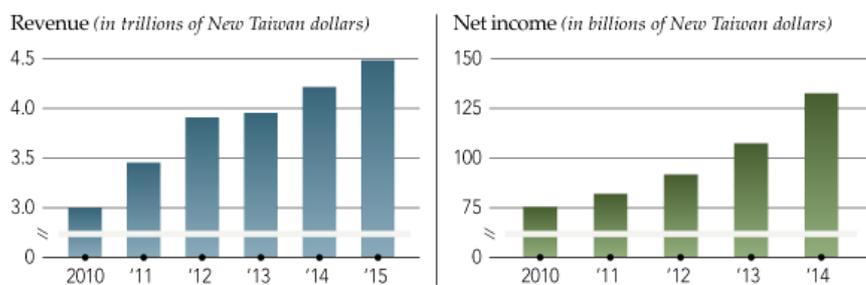
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resources to studying Hon Hai's bid than INCJ's. Sharp plans to make a decision within the month, according to Takahashi.

Yet Gou's cocky nature, never far beneath the surface, may have undone his recent progress. On Feb. 5, he marched into Sharp's offices to press his offer.

"I am hoping to nail the deal this afternoon," Gou told reporters outside Sharp's headquarters in Osaka. But the hours of negotiation that followed were inconclusive. Gou told the press that Sharp had given Hon Hai first refusal rights, but Sharp refuted this.

Hon Hai Precision Industry's financial performance



The parties are clearly not finding it easy to reach an agreement, and Gou's brash style may have done little to reassure the beleaguered Sharp management. It has never been an easy relationship. When Gou negotiated with Sharp for a minority stake in 2012, he reportedly put backs up by saying he could buy the whole business if he chose. Subsequently, he agreed to take 9.9% of the company for 550 yen per share, but retracted the offer as the stock price plummeted. The incident left bitter feelings in Osaka.

HANDS-ON WORKAHOLIC Gou is often compared to a military strongman. Aides say he frequently overrules his senior executives and advisers on key decisions -- but more often than not he is vindicated.

Terry Cheng worked under Gou at Hon Hai from 2007 to 2012 and had served as his longtime counselor before that. When Gou wanted to establish **Innolux** in 2003 to develop liquid crystal display technology, Cheng recalls that there was little support for the idea among Gou's external advisers. Taiwan already had plenty of suppliers. Gou prevailed, however, and has established Innolux as the world's third-largest LCD maker after **Samsung Electronics** and **LG Display** in South Korea.

"At Foxconn, no one works longer and harder than Chairman Gou. He works 15

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Hon Hai Chairman Terry Gou shows off an agreement with Sharp President Kozo Takahashi after meeting with Sharp executives in Osaka on Feb. 5.

hours a day, seven days a week," Cheng said, echoing a senior aide to Gou.

"Chairman Gou is not a genius," said the aide, who declined to be named. "He got to where he is today by hard work and assiduousness. He knows Foxconn's technology better than anyone else, and that is why he has better judgment than his senior

executives."

While Gou is an inspiration to many who work for him, often around the clock, he also courts controversy and is viewed in Taiwan as something of a loose cannon. There was public dismay there when he said in 2014 that democracy could not boost the local economy. His intimate ties to the outgoing ruling China-friendly Kuomintang, or Nationalist Party, has not improved his popularity -- the Nationalists were trounced in presidential and parliamentary elections in January. It has also not gone unnoticed that Foxconn, a key contract assembler for Apple, employs some 1 million workers in China but only 10,000 in Taiwan.

Gou's devout worship of Guan Yu, a legendary Chinese general, is considered eccentric. Guan served under Liu Bei, a warlord in the Three Kingdoms period in the third century, and is revered as Lord Guan. Gou wore a bright yellow scarf that had been blessed at a Lord Guan shrine in Shanxi, his father's home province in China, when he arrived for his talk with Sharp on Feb. 5.

RAGS TO RICHES Whatever his foibles, Gou has excelled in business. From its headquarters in Tucheng, a gritty Taipei suburb, Hon Hai's manufacturing empire stretches across the world, from China, India and Vietnam to the Czech Republic, Mexico and the U.S. In 2015, revenue hit a record 4.48 trillion New Taiwan dollars (\$134 billion), about half of which came from Apple contracts.

Gou's origins are modest. His father came to Taiwan from China and became a policeman. In 1974, equipped with a degree from a local maritime college and some experience in a shipping company, Gou used NT\$100,000 he received from his mother to start up a business making plastic components. He soon began to focus on producing molds, which to this day remains one of Hon Hai's core competencies.

Hon Hai Timeline

1974	<ul style="list-style-type: none"> Terry Gou establishes Hon Hai Plastics at age of 24 Hon Hai begins with capital of NT\$100,000 Gou marries Teresa Lin, who died in 2005
1975	<ul style="list-style-type: none"> Hon Hai starts making TV components
1978	<ul style="list-style-type: none"> Enters mechanical tooling business
1982	<ul style="list-style-type: none"> Officially changes name to Hon Hai Precision Industry
1991	<ul style="list-style-type: none"> Lists on Taiwan Stock Exchange on June 18, before Gou's 41st birthday
1995	<ul style="list-style-type: none"> Revenue exceeds NT\$10 billion
1999	<ul style="list-style-type: none"> Revenue exceeds NT\$20 billion
2001	<ul style="list-style-type: none"> Hon Hai becomes Taiwan's largest manufacturer in the private sector
2002	<ul style="list-style-type: none"> Becomes greater China's biggest exporter
2003	<ul style="list-style-type: none"> Sets up Innolux, a panel-manufacturing subsidiary
2004	<ul style="list-style-type: none"> Becomes world's largest electronics contract manufacturer Revenue hits NT\$41.59 billion
2005	<ul style="list-style-type: none"> Hon Hai subsidiary FSI Mobile, a mobile phone contract maker, lists on Hong Kong Stock Exchange, trades as Finemore
2006	<ul style="list-style-type: none"> Hon Hai acquires leading contract camera maker Premier Technology Revenue breaks through NT\$1 trillion to NT\$1.32 trillion
2007	<ul style="list-style-type: none"> Makes first-generation Apple iPhone
2008	<ul style="list-style-type: none"> Gou marries Della Tang, a former dancer
2010	<ul style="list-style-type: none"> Hon Hai acquires leading panel maker Chi Mei Optoelectronics via stock swap valued at \$5.1 billion Hon Hai-controlled Innolux becomes Taiwan's No. 1 display panel maker
2011	<ul style="list-style-type: none"> Gou talks to Sharp for first time about rescuing Japanese company
2012	<ul style="list-style-type: none"> Gou personally invests in Sharp's large-panel manufacturing subsidiary Sakai Display Products
2013	<ul style="list-style-type: none"> Hon Hai-Sharp negotiations fail Revenue generated from Apple exceeds 50% of Hon Hai's full-year revenue of NT\$1.65 trillion
2015	<ul style="list-style-type: none"> Hon Hai forms venture with Japan's SoftBank Group, China's Alibaba Group Holding to boost production of SoftBank's Pepper robot and take it global Gou re-initiates takeover bid for Sharp Forbes lists Gou as world's 20th richest man, with net worth of \$6.1 billion Hon Hai listed as Taiwan's largest company by revenue for 15th consecutive year
2016	<ul style="list-style-type: none"> Raises offer for Sharp to 700 billion yen

A breakthrough came in 1980 when Gou won an order from Atari, the U.S. game maker where the late Steve Jobs gained some early experience, supplying connectors for joysticks on game consoles. In 1988, Hon Hai revenue exceeded NT\$1 billion and the company started building plants in China.

By the mid-1990s, the company had made a name for itself as an Apple supplier, making frames for Macintosh computers. In 1996, Gou boosted the company's manufacturing credentials with a large component order from Compaq while he was still building new facilities in Shenzhen in southern China. He outsourced production to other factories until he could get the Shenzhen plant operating.

Gou feels that particular decision was key to the rapid growth that followed. He regularly reminds his lieutenants of how he slept in a shipping container on the construction site in Shenzhen for months in order to make sure the Compaq order was filled.

STRING OF TRAGEDIES One of the toughest challenges for Gou came in 2010, when a string of suicide attempts resulted in at least 10 confirmed deaths at the Shenzhen factories. The tragedies shocked the world and thrust the still relatively unknown company into the public gaze. Its "military-style" management, with long working hours, was heavily criticized in the international press and by labor groups.

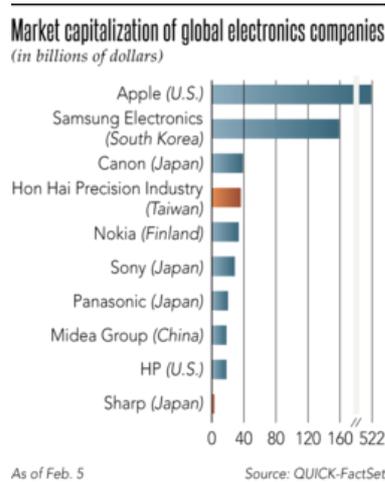
"I am deeply saddened, and I have not been able to sleep well for a month," Gou said in May 2010 after another suicide attempt came to light. Hon Hai has since raised its minimum wage, set up counseling hotlines and capped overtime.

The Shenzhen problems followed the death of Gou's first wife, Serena Lin, from cancer in 2005 and his brother, Tony, from leukemia in 2007. These losses motivated Gou to become involved in charities and sponsor cancer research. He has also donated elsewhere, including most recently NT\$200 million for victims of the massive earthquake that struck Tainan, a city in southern Taiwan, on Feb. 6.

With no heir apparent, Hon Hai has a succession crisis brewing. There is speculation that the company will be carved up once Gou departs, though the man himself has no immediate plan to go anywhere.

"I still have my family to support, so I cannot retire too soon," he said in 2014.

Gou now has another compelling reason to remain in the driver's seat. Should it transpire, the Sharp acquisition would be Hon Hai's biggest corporate buyout and the group's first merger with a major non-Taiwanese



company. Even without the delicate relationship that already exists between the two, turning around the ailing but proud Japanese electronics giant would be one of Gou's toughest challenges ever.

Nikkei staff writer Cheng Ting-fang contributed to this report.

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March 3, 2016 12:00 pm JST

Hon Hai's Terry Gou wants Sharp, no matter what

DEBBY WU and SHUNSUKE TABETA, Nikkei staff writers

TAIPEI/TOKYO Taiwanese tycoon Terry Gou is once again defying his deputies with his determination to acquire embattled Japanese electronics titan Sharp, but whether his colossal gamble will pay off remains to be seen.

A yearslong effort by Gou's [Hon Hai Precision Industry](#) to acquire Sharp and its advanced panel technology appeared to bear fruit on Feb. 25, when the board of the Japanese conglomerate voted in favor of a 700 billion yen (\$6.2 billion) bailout proposal from its Taiwanese suitor, rather than the 300 billion yen rescue offered by the Japanese government-backed Innovation Network Corp. of Japan.

But that was not the final twist in the tortuous saga. Hon Hai, also known as Foxconn Technology Group, immediately said it would postpone signing the deal to review a list of contingent liabilities totaling 350 billion yen submitted by Sharp on Feb. 24 before deciding on its next step. Contingent liabilities are those that are realized under certain conditions.

Gou appears unfazed by the setback and has been pressing his team to finish a new round of due diligence at Sharp's headquarters in Osaka and wrap up the deal as soon as possible, brushing aside concerns about the strain on Foxconn's finances. The two sides are striving to sign an agreement by March 7.

"Even though some executives are worried that the gigantic cost of the acquisition to Foxconn will take a toll on the company's financial health, Chairman Gou has made it clear that he wants Sharp and no one will be able to challenge that order," a person familiar with the talks told The Nikkei. "But it is possible that following the acquisition, Foxconn will be forced to reduce its near-term investments."

GUT INSTINCT Current and former Foxconn executives have pointed out that when Gou and his executives and advisers disagree on a major project, very often Gou will disregard their opinions and go after what he wants. Although this gut-instinct approach has served Gou well over the years, the executives' concerns regarding Sharp have merit.

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Alberto Moel, an analyst at Sanford C. Bernstein, said in a note on Feb. 25 that while the deal is structured to lessen the burden on Taipei-listed Hon Hai, the company is probably "overpaying" for the transaction with a premium of perhaps 250 billion yen.

Vincent Chen, an analyst at Yuanta Securities Investment, said that the Sharp deal could burn through Hon Hai's cash. "Hon Hai's net cash was around 300 billion New Taiwan dollars (\$9.02 billion) at the end of September, and the deal will eat into its cash position significantly and possibly affect the company's future investments and cash dividend," Chen said.

Before the latest hiccup, Foxconn executives were hoping to wrap up the deal last week. They had to postpone the signing after Sharp sent Foxconn a list on Feb. 24 of some 100 items containing contingent liabilities totaling 350 billion yen, including pensions, government subsidies and possible penalties for breaching existing contracts, according to people familiar with the talks.

Foxconn said the liabilities were "new material information" that the company was previously unaware of. Sharp countered by saying it had made the proper disclosures in its financial reports. At the same time, Gou upbraided his staff for not spotting the liabilities sooner.

After receiving the new document, Foxconn contacted Sharp, asking for more details. Sharp President Kozo Takahashi described the liabilities as "an unfortunate misunderstanding" in an email, and said the potential additional liabilities only come to 50 billion yen. Foxconn financial adviser JPMorgan Chase also suggested a significant portion of the contingent liabilities are low risk.

Still, Foxconn eventually demanded that Sharp not hold a board meeting, previously scheduled for Feb. 25, before the two sides could clarify the actual amount of the liabilities. The Japanese company ignored the request.

Sharp's board approved Foxconn's offer on the morning of Feb. 25 and revealed that Hon Hai, together with its two subsidiaries and Gou's personal investment arm, SIO International Holdings, will spend a total of 489 billion yen to buy newly issued Sharp shares for 118 yen each. This will give Hon Hai and Gou about a two-thirds stake in Sharp.

Hon Hai will also purchase half of the 200 billion yen in preferred Sharp shares held by Sharp's main creditors, Mizuho Bank and Bank of Tokyo-Mitsubishi UFJ, and buy back some 25 billion yen in preferred shares held by the Japan Industrial Solutions Fund at a negotiated price.

After Sharp's announcement, Foxconn held an emergency video conference, with Gou presiding over the sessions from Nanning, China, where he was due to sign a pact with the local government.

Later that day, Foxconn said in a statement that it will hold off on signing the agreement until it can get a clear understanding of the contingent liabilities. At the same time, Gou pressured company executives to complete

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their investigation as soon as possible so he could seal the deal. Sharp also dispatched a delegation that day to Foxconn's China headquarters in Shenzhen to discuss the new development.

On Feb. 26, Takahashi also went to Shenzhen to meet Gou and his deputies, including Foxconn's Japan chief Tai Jeng-wu. Takahashi apologized to Foxconn and the two sides decided to aim for a March 7 signing date. Foxconn sent its staff and external consultants to Osaka to begin a new round of due diligence a day later.

BECOMING CLEARER Gou's attempt to grab hold of Sharp is part of his effort to secure more orders from Apple, whose orders account for half of Foxconn's revenue, at a time when the Taiwanese tech powerhouse is grappling with slowing growth in the global smartphone market. In January, Foxconn's revenue dropped 15% on the year.

David Hsieh, senior director at research specialist IHS Technology, said Foxconn needs Sharp's advanced low-temperature polysilicon (LTPS) display technology. The technology is used in Apple's popular iPhones, and Sharp is a supplier to the U.S. gadget maker. But there is speculation Apple wants to shift to active-matrix organic light-emitting diode (AMOLED) technology. To produce AMOLED panels, a manufacturer first needs superior LTPS technology because AMOLED incorporates elements of LTPS.

"Foxconn-controlled panel maker [Innolux](#) lacks superior LTPS technology. It would be a disaster for Foxconn to build two new LTPS facilities in China, together with another one in southern Taiwan, without matching technology," Hsieh said.

Nikkei staff writers Kazunari Yamashita and Cheng Ting-Fang in Taipei contributed to this report.

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April 7, 2016 12:00 pm JST

Terry Gou finally has Sharp; now for the hard part

DEBBY WU, Nikkei staff writer



Foxconn Technology Group Chairman Terry Gou (Photo by Kento Awashima)

SAKAI, Japan Just prior to inking the deal for the acquisition of Japanese electronics maker Sharp, [Hon Hai Precision Industry](#) Chairman Terry Gou made a brief side trip. He and other senior executives from the Taiwanese company visited a small Japanese shrine to pray for luck in their new undertaking.

Given the formidable challenges that lie ahead, they may well need it.

Gou and Sharp President Kozo Takahashi signed the agreement for the \$3.5 billion takeover on April 2. The signing took place at Sakai Display Products, a large-panel production facility jointly controlled by the Taiwanese mogul and Sharp, located in suburban Osaka.



Foxconn Chairman Terry Gou and Sharp President Kozo Takahashi shake hands after signing the acquisition agreement between their companies on April 2. (Photo by Hirofumi Yamamoto)

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WHAT GOU WANTS At the ceremony, Gou reiterated that he is firmly committed to restoring the embattled Japanese company to profitability.

Sharp's Hon Hai-backed growth strategy

Organic light-emitting diode displays	200 billion yen investment in mass production in hope of supplying Apple
Liquid crystal displays	60 billion yen investment to cut production costs of small, midsize panels
Home appliances, other consumer goods	40 billion yen investment to boost product lineup, business for Internet of Things
Multipurpose copiers	40 billion yen investment to expand overseas sales networks, develop new markets
Electronics parts	10 billion yen investment to strengthen sales to automakers
Solar batteries	8 billion yen investment, sale of business possible due to poor performance

"I am a major investor, giving my personal money, so I want [Sharp to be profitable] more than you," Gou said in answer to a reporter's question.

Three days earlier, the boards of Hon Hai, better known as Foxconn Technology Group, and Sharp approved the deal, in which Foxconn will purchase a 66% stake in the Japanese company for 388 billion yen (\$3.5 billion). But with Sharp expected to book a massive loss for the last fiscal year, many are wondering whether Gou will be able to revive an entity on the brink of collapse.

Foxconn, two subsidiaries and Gou's personal investment arm are making the purchase jointly. Gou is paying out of his own pocket for an 8.45% stake in Sharp.

The Taiwanese tycoon did not elaborate on when he may be able to staunch the bleeding at Sharp, but he said turnaround efforts will include boosting the company's operational efficiency and production capacity. Sharp will also be tasked with developing connected devices for use in smart homes, and investments in advanced display, camera and sensor technologies are also planned.

While Foxconn does not make smartphone camera modules, Sharp subsidiary Kantatsu is considered an up-and-coming rival to Taiwan's [Largan Precision](#), the world leader in the field.

As for smartphone displays, Gou said he wants to help develop Sharp's indium gallium zinc oxide, or IGZO, display technologies to compete against the active-matrix organic light-emitting diode, or AMOLED, technologies of South Korea's [Samsung Electronics](#) and [LG Display](#).

While IGZO is already used in large and midsize panels, the technology has not matured to the point where it can be used in the small panels needed for



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smartphones. There has been speculation that Apple may begin adopting AMOLED technologies for its iPhones next year. If that happens, Sharp could lose orders from the U.S. company.

People familiar with Foxconn's thinking told the Nikkei Asian Review that Gou is interested in Sharp's display business. With global demand for smartphones stalling, they said, Gou wants to leverage the Japanese company's panel technologies to secure more orders from Apple.

The sources also said Gou is hoping to sell Foxconn-made gadgets under the Sharp brand directly to retail customers, thereby transforming the world's largest contract electronics manufacturer into a brand business. Doing so would reduce the Taiwanese group's reliance on its corporate clients for growth, they said.

HEADWINDS APLENTY As ambitious as Gou may be, he is also a realist.

"I am not going to sugarcoat the challenges facing this strategic investment," he said. "The global economy is not promising. ... [But] I have never been afraid of a bad economy, as long as we have the direction and the ability to compete."

His executives, however, have been split on the deal. While Tai Jeng-wu, Foxconn's Japan chief and Gou's right-hand man, has been a driving force behind the acquisition, some executives are worried that Foxconn is paying an exorbitant amount for a failing Japanese company whose technology is already lagging behind that of its South Korean competitors.

Making matters worse, Foxconn has been feeling the impact from slowing demand for mobile gadgets. For the October-December period, the annual peak season, the company reported a 4.69% drop in revenue, to 1.42 trillion New Taiwan dollars (\$44.0 billion), and a 6.67% decline in net profit, to NT\$52.93 billion. Foxconn's revenue dropped 8.55% on the year in the January-February period.

Analysts have voiced concerns, too.

"We believe Hon Hai will improve Sharp's operating efficiency by leveraging its expertise in manufacturing and execution," Kylie Huang, an analyst at Daiwa Capital Markets, wrote in a note on March 30. "However, we think it is unlikely that Hon Hai will be able to turn Sharp around in the near future due to the time-consuming integration process."

Alberto Moel at Sanford C. Bernstein also expressed doubts about whether Sharp can become profitable anytime soon.

"We maintain our view that Hon Hai is likely overpaying for the transaction given the high execution risks to turn around Sharp's various business segments, given the challenging financial outlook," Moel said in a note dated March 31.

AILING GIANT Sharp announced on March 30 that it expects to report an operating loss of 170 billion yen for the fiscal year through March 31. The

company had earlier projected an operating profit of 10 billion yen. It cited poor performance of its LCD panel and home electronic appliance businesses -- the two segments Foxconn is most interested in.

Sharp's woes go beyond financial stress. Due to its protracted slump, the company has lost both money and talent. After a round of job cuts in 2012, it offered voluntary retirement packages to roughly 3,200 employees last September. Its young workers are regularly poached by Sharp alumni working elsewhere.

Upon taking the helm in 2013, Takahashi launched a group charged with developing innovative products. The goal was to generate 80 billion yen in sales in areas such as robotics and medical equipment in the year through March 2016. But the group was disbanded last October.

"We started to feel pressure to produce immediate results," a 20-something former Sharp employee told The Nikkei, recalling how the lofty goal was abandoned as Sharp's business condition worsened.

A clause in the buyout contract granting Foxconn the right to purchase Sharp's liquid crystal business should Sharp withdraw from the deal unilaterally has raised eyebrows among observers.

There has also been concern about whether the two companies can successfully work together given their cultural differences, though Gou has dismissed such skepticism, saying differences can help drive innovation and growth.

Not everyone buys Gou's rhetoric. Bernstein's Moel said Gou faces insurmountable challenges, ranging from language barriers to strategic direction.

"Everything is working against him," Moel told NAR. "It's all risk, risk and risk."

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November 10, 2016 12:00 pm JST

Apple mulls iPhone overhaul as Foxconn ponders its future

DEBBY WU and CHENG TING-FANG, Nikkei staff writers

iPhone 7 vs. iPhone 8 in 2017



CHASSIS

iPhone 7

Metal casing

Suppliers: Foxconn Technology, Catcher Technology

iPhone 8

Glass casing

Likely suppliers: Biel Crystal Manufactory, Lens Technology

PANELS

iPhone 7

LTPS panels

Suppliers: LG Display, Japan Display, Sharp

iPhone 8

Flexible OLED panels

Likely suppliers: Samsung Electronics, LG Display

iPhone 8 new features: Wireless charging, curved screen

CORE PROCESSOR CHIP

iPhone 7

A10 core processor chip, 16-nanometer process technology

Supplier: Taiwan Semiconductor Manufacturing Co.

iPhone 8

A11 core processor chip, 10-nanometer process technology

Likely supplier: Taiwan Semiconductor Manufacturing Co.

TAIPEI Apple's iPhone 7 has been a disappointment for both the company and its suppliers, and now the Cupertino, California-based gadget maker appears to be working on a major overhaul for its next generation of smartphones.

All three iPhone 8 models will sport glass backs, joined to the front cover by a metal frame, according to a person familiar with Apple's plans.

Curved organic light-emitting diode screens may also be in the cards, at least

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for Apple's premium handset. Wireless charging is another expected feature of the iPhone, which marks its 10th anniversary next year.

"Apple has tentatively decided that all the 5.5-inch, 5-inch and 4.7-inch models will have glass backs, departing from the metal casings adopted by current iPhones, and Biel and Lens are likely to be providing all the glass backs for the new iPhones next year," an industry official said.

China's Biel Crystal Manufactory and Lens Technology supply front glass covers for iPhones.

Apple is trying to woo new customers and persuade existing ones to move upmarket with a radically different look for its new handset. The iPhone 7 was criticized for being too similar to older models and lacking innovative new features.

The industry official said that although key iPhone assembler [Hon Hai Precision Industry](#), also known as Foxconn Technology Group, and its subsidiaries have been working to develop glass backs, it is unlikely the Taiwanese company will receive orders for this component because its Chinese rivals have the technological edge.

Foxconn is a major supplier of metal casings to Apple, which is its biggest customer overall, accounting for over 50% of its total sales. Foxconn supplies casings for the iPhone 7 Plus, and iPhone SE, splitting its iPhone 7 business with [Catcher Technology](#) and U.S.-based Jabil. The industry official said it was unclear whether Foxconn's revenue will be affected next year as Apple has not made a final decision on the design of the new metal frames.

Biel Crystal, Foxconn and Lens all declined to comment.

Foxconn is making wireless charging modules for the iPhone range slated for release in 2017, according to another person familiar with the matter. "But whether the feature eventually makes it into Apple's updated devices will depend on whether Foxconn can boost the yield rate to a satisfactory level later on."

The yield rate measures the number of nondefective units in a batch of components. The lower the yield rate, the lower the profit. If it is too low, a component may be left out of the final product altogether.

The person said the charging modules will be incorporated into the handsets, but it is unclear whether all iPhones coming out next year will feature wireless charging.

The Nikkei Asian Review reported in late August that the high-end 5.5-inch iPhone 8 will have a curved OLED display, reportedly to be supplied by [Samsung Electronics](#), while the other two handsets will stick with the low-

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temperature polysilicon, or LTPS, panels used in the iPhone 7.

While wireless charging and curved OLED screens will be new to the iPhones, some premium Android handsets, such as Samsung's Galaxy S6 Edge, the Galaxy S7 Edge and the now terminated Galaxy Note 7, and Chinese smartphone maker Xiaomi's latest Mi Note 2 already have such screens. Likewise, the Android camp has had phones with wireless charging for some time now, with Samsung and [LG Electronics](#) leading the trend.



Terry Gou, chairman of Hon Hai Precision Industry, talks with an attendee at a business conference in Hong Kong on Nov. 5. (Photo by Debby Wu)

Tai Jeng-wu, president of Sharp, the Japan-based electronics company recently acquired by Foxconn, knows that Apple lags behind in these areas. Sharp, which supplies LTPS panels to Apple, has said the U.S. company faces a crisis. Speaking to students at his alma mater, Tatung University, on Oct. 29, he confirmed that Apple will use OLED displays in the future, without saying when.

"The iPhone has been evolving, and now it is switching from LTPS to OLED panels," Tai said. "We don't know whether Apple's OLED iPhones will be a hit, but if Apple doesn't walk down this path and transform itself, there will be no innovation. It is a crisis, but it is also an opportunity."

Apple has declined to comment on new features for the iPhone 8. In fact, it may not even be called that. Some market watchers suspect the handset may get a new name to mark the 10th anniversary of the product.

Apple's revenue suffered its first annual decline since 2001, falling 7.7% on the year to \$215 billion, in the year to September.

Foxconn also saw its sales drop 3.2% to 2.95 trillion New Taiwan dollars (\$93.7 billion) in the first nine months of the year. Competitor Catcher Technology reported a net profit of NT\$4.47 billion, a 45% on-year drop, on sales of NT\$20.73 billion, down 3%, in the July-September period.

LIFE AFTER APPLE To stanch the bleeding from falling iPhone sales, Foxconn Chairman Terry Gou has been searching for new revenue in cloud computing, robotics and semiconductors.

In an exclusive interview with the Nikkei Asian Review on Nov. 5, the head of the world's largest contract electronics maker said he is working with new subsidiary Sharp to improve Foxconn's capabilities in chips. "We are now integrating the two companies' semiconductor expertise, as we use many chips ourselves," Gou said on the sidelines of a German business forum in Hong Kong.

"If Sharp can integrate with Foxconn, we can create a lot of room for growth by leveraging Sharp's know-how, Taiwan's own semiconductor

manufacturing expertise, and young engineers in China," the Taiwanese entrepreneur said. Gou said he initially wants to make chips for internet-enabled TVs, a major Sharp product. But he hinted at bigger aspirations, saying emerging technologies such as cloud computing will require chips as well.

Foxconn is also setting up a chip design center in the southern Chinese city of Shenzhen with help from British chip designer ARM, now controlled by Japanese tech giant SoftBank Group. Shenzhen is Foxconn's Chinese headquarters.

While Gou did not offer details on the partnership, he appeared to confirm it, asking, "How did you know all about this?" in reference to the Shenzhen center.

In addition to expanding into the chip sector, Foxconn hopes to improve its profitability by cutting labor costs in China through automation. "Right now we use some 60,000 robots on our production lines. We plan to increase that number by 20-30% every year," Gou said. Foxconn makes its own robotic arms, called "Foxbots," for use in its factories.

"We've already had some lights-off facilities, [which require no human presence] and we will have more of them in the future," Gou said.

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November 18, 2016 12:20 am JST

Exclusive

Apple could make iPhones in US in future: sources

DEBBY WU, Nikkei staff writer



Sources say Apple has asked its assemblers to look into making iPhones in the U.S. © AP

TAIPEI -- iPhones might one day soon carry "Made in America" labels.

Key Apple assembler [Hon Hai Precision Industry](#), also known as Foxconn Technology Group, has been studying the possibility of moving iPhone production to the U.S., sources told the Nikkei Asian Review.

"Apple asked both Foxconn and [Pegatron](#), the two iPhone assemblers, in June to look into making iPhones in the U.S.," a source said. "Foxconn complied, while Pegatron declined to formulate such a plan due to cost concerns."

Foxconn, based in the gritty, industrial Tucheng district in suburban Taipei, and its smaller Taiwanese rival churn out more than 200 million iPhones annually from their massive Chinese campuses.

Another source said that while Foxconn had been working on the request from Apple Inc., its biggest customer that accounts for more than 50% of its sales, Chairman Terry Gou had been less enthusiastic due to an inevitable rise in production costs.

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Hong Kong	1,056.94	+5.18	+0.49%
South Korea	1,178.95	-7.95	-0.67%
Taiwan	1,235.16	+0.58	+0.05%
Indonesia	1,227.48	-10.30	-0.83%
Malaysia	995.81	-1.40	-0.14%
Philippines	976.51	-16.45	-1.66%
Singapore	1,048.59	-20.31	-1.90%
Thailand	1,202.57	-16.26	-1.33%
Vietnam	1,278.79	-2.23	-0.17%
India	1,088.77	-2.73	-0.25%

* Real-time snapshot. Others show latest closing data (updated around 20:00 JST on trading days).

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"Making iPhones in the U.S. means the cost will more than double," the source said.

The person added that one view among the Apple supply chain in Taiwan is that U.S. President-elect Donald Trump may push the Cupertino, California-based tech titan to make a certain number of iPhone components at home.

According to research company IHS Markit, it costs about \$225 for Apple to make an iPhone 7 with a 32GB memory, while the unsubsidized price for such a handset is \$649.

Apple, Foxconn and Pegatron all declined to comment.

Not Made in America

Apple's move appears to fall in line with Trump's pledge to push American companies to make their products at home. There is a widespread perception among American voters that the U.S. is losing manufacturing jobs to other countries in this age of globalization and free trade.

Other than having its popular gadgets assembled in China, Apple also procures most of the key components for its flagship iPhones from Asian suppliers.

[Taiwan Semiconductor Manufacturing Co.](#) makes chips for iPhones, Japan's [Japan Display](#) and [Sharp](#) supply panels for Apple's handsets, and South Korea's [SK Hynix](#) and Japan's [Toshiba](#) produce memory chips for the device.

Trump singled out Apple several times earlier this year to hammer home his point, and vowed to slap a 45% tariff on goods made in China.

"We're going to get Apple to build their damn computers and things in this country instead of in other countries," he said at Liberty University in Virginia in January.

In March, Trump further pointed the blame at China, where Apple's assemblers churn out iPhones, iPads and MacBooks.

"How does it help us when they make it in China?" Trump said during his Super Tuesday victory speech.

The anxiety among Trump's mostly white working-class supporters in the Rust Belt of America is understandable. While Apple claims that it created and supports 2 million jobs domestically, U.S. think-tank Economic Policy Institute estimated that America had lost 5 million manufacturing jobs between 2000 and 2014.

On the other hand, Foxconn employs some 690,000 workers in China as at the end of April, equaling the entire population of Detroit.

Even though the number is down from the peak of 1.3 million in 2012, it is still a high head count that many heads of countries, including Indian Prime Minister Narendra Modi, would like to secure for their people.

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Yet some in the Apple supply chain said it would be impossible to move iPhone production back to the U.S. due to a lack of infrastructure and a steep hike in costs.

Apple's Chief Executive Tim Cook told CBS' 60 Minutes program in December 2015 that America simply did not have enough skilled workers for the production of iPhones.

An industry executive familiar with the iPhone production process also said it would be difficult to produce the device in large quantities in the U.S.

"To make iPhones, there will need to be a cluster of suppliers in the same place, which the U.S. does not have at the moment," the executive said. "Even if Trump imposes a 45% tariff, it is still possible that manufacturers will decide to continue production overseas as long as the costs together with the tariffs are lower than the amount they need to spend on building and running production lines in the U.S."

Another industry source said: "It is not easy to make iPhones in America, unless the U.S. government subsidizes local companies for producing domestically."

Meanwhile, Beijing is getting edgy too. The state-run Global Times warned on Nov. 13 that if Trump starts a trade war with China, "U.S. auto and iPhone sales in China will suffer a setback."

Politics will trump everything

Yet there was precedent in the administration of incumbent President Barack Obama for political factors to overpower economic concerns when companies and governments haggle over corporate practices.

Faced with political pressure to bring jobs home under Obama's government, Apple helped its Singapore-based contractor Flextronics build a Mac Pro production line in Austin, Texas in 2013, after Foxconn set up an iMac assembly line in the same state the year before.

Sharp President Tai Jeng-wu, right-hand man to Foxconn's Gou, also hinted in late October that if Apple eventually decided to produce in the U.S., he would have no option but to follow his customer's instructions.

"We are now building a new [advanced organic light-emitting diode] facility in Japan. We can make [OLED panels] in the U.S. too," he said. "If our key customer demands us to manufacture in the U.S., is it possible for us not to do so?"

"Politics will trump cost concerns in the end," the industry executive familiar with iPhone's production process said. "The Apple supply chain must treat Trump's campaign pledge seriously and not write it off."

Mark Li, an analyst at Sanford C. Bernstein, echoed the sentiment.

"Although TSMC is very clear that it would be much more expensive to make chips outside of Taiwan, it's inevitable for the world's largest contract chipmaker to take 'Made in the U.S.' into consideration if the alternative is

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that it would lose Apple orders without moving to America," Li said.

Yet the big question is -- even if Apple moves the mundane assembly line back to the U.S., will American workers be keen for such monotonous and labor-intensive jobs that often attract criticism from rights groups and that even Chinese youngsters are turning their noses up on?

"Young people in China no longer want to work in factories but instead they want to be a Didi driver or run their small business on WeChat," an industry executive said.

Didi is the Chinese equivalent of Uber, and WeChat is China's homegrown real-time messenger.

"As a Didi driver, you can work whenever you want. But there is no freedom in a factory -- once you're on duty, you'll be on the production line for 10 hours or more," the executive said.

Nikkei staff writer Cheng Ting-fang contributed to this report

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